

**HOWARD COUNTY RETIREMENT PLAN**  
**~~AND~~AND**  
**HOWARD COUNTY POLICE AND FIRE EMPLOYEES'**  
**RETIREMENT PLAN**  
**INVESTMENT POLICY STATEMENT**

(Revised April 2019)~~OCTOBER~~FEBRUARY 25~~26, 2018~~5

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## **I. INTRODUCTION**

Howard County, Maryland, a body corporate and politic of the State of Maryland (the "County"), has established this Investment Policy Statement to clearly define the long-term investment objectives, risk tolerance and constraints of the Howard County Police and Fire Employees' Plan (the "Police and Fire Plan") and the Howard County Retirement Plan (the "Employees Plan"). The Police and Fire Plan and the Employees Plan are collectively referred to as the "Plans". This written policy statement shall assist the County in effectively supervising, managing, and monitoring the investments of the Plans.

The Police and Fire Plan is a single-employer defined benefit public employee retirement system established and administered by the County to provide defined pension benefits to uniformed career police and firefighters that do not participate in the Maryland State Retirement Systems. Pursuant to Council Bill 118-1989, effective March 13, 1990, the Police and Fire Plan, which is presently codified in Sections 1.401A through 1.478A of the Howard County Code, was adopted by the County. The Police and Fire Plan is administered by a Retirement Plan Committee (the "Police and Fire Committee") comprised of County representatives; the Chief Administrative Officer, the Director of Finance, the Budget Officer and the Human Resources Administrator; and union and fire and police management representatives.

The Employees Plan is a single-employer defined benefit public employee retirement system established and administered by the County to provide defined pension benefits for general County employees that do not participate in the Police and Fire Plan or the Maryland State Retirement Systems. Pursuant to Council Bill 21-1995, effective June 12, 1995, the Employees Plan, which is presently codified in Sections 1.401 through 1.485 of the Howard County Code, was adopted by the

County. The Employees Plan is administered by a Retirement Plan Committee (the “Employees Committee”) comprised of County representatives; the Chief Administrative Officer, the Director of Finance, the Budget Officer and the Human Resources Administrator; and union and employee representatives. The Police and Fire Committee and the Employees Committee will be collectively referred to as the “Retirement Plan Committees”.

The Plans are maintained by the County for eligible employees in accordance with the terms, conditions, and provisions of the Plans, as set forth in each Plan document. The Plans were established and are maintained to provide retirement income and other benefits for certain of its employees and their beneficiaries.

The Retirement Plan Committees shall establish and approve any and all modifications to this Investment Policy Statement. Specific investment goals stated herein shall be reviewed at least annually, and when appropriate, new goals and standards shall be adopted by the Retirement Plan Committees. The Retirement Plan Committees administer the Investment Policy Statement and provide oversight and supervision for the management of the Plans’ assets. To assist the Retirement Plan Committees in this function, they are authorized and permitted to engage the services of an Investment Consultant who possesses the necessary specialized research facilities and skilled manpower to assure its expertise under the governing laws as may now, or in the future, apply to the investments of the Plans.

The Plans and the benefits provided thereunder are funded through a combination of investment earnings on the Plans’ assets and contributions specified in each Plan document. On December 24, 1997 the County established the Howard County Master Trust, an arrangement under which the assets of the Plans are commingled and pooled under common investment management.

## II. DELEGATION OF RESPONSIBILITIES

**A. Retirement Plan Committees -** The Retirement Plan Committees and staff have no role and shall not exert any influence in the actual investment process performed by the Investment Managers. Specific oversight responsibilities of the Retirement Plan Committees in the investment process, to be performed with the advice and assistance of appropriate consultants, professional advisors, and staff, include:

1. complying with applicable laws, regulations and rulings appropriate thereto;
2. developing a sound and consistent investment policy including asset allocation, diversification and quality guidelines;
3. communicating clearly the major duties and responsibilities of those accountable for achieving investment results and to whom specific responsibilities have been delegated;
4. selecting and maintaining qualified Investment Managers and Investment Consultants;
5. monitoring and evaluating results to ensure that policy guidelines are being adhered to and that policy objectives are being met;
6. taking action under appropriate circumstances to discharge an Investment Manager or Investment Consultant for failing to meet stated expectations or to abide by this Investment Policy Statement; and
7. undertaking such work and studies as may be necessary to keep the Retirement Plan Committees adequately informed as to the status of the Plans' assets.

## **B. Responsibilities of the Investment Consultant**

1. Evaluate the performance results for each Investment Manager quarterly and in writing.
2. Advise the Retirement Plan Committees as to the continuing appropriateness of each Investment Manager.
3. Recommend to the Retirement Plan Committees modifications of the overall investment structure including objectives, guidelines or performance standards for each asset class.
4. Keep the Retirement Plan Committees informed on current investment trends and issues.
5. Advise the Retirement Plan Committees of significant organizational changes at the Investment Managers' firms including: significant changes in key personnel, principals and other individuals providing advice and investment services to the Retirement Plan Committees.
6. Advise the Retirement Plan Committees of significant organizational changes at the Investment Consultant's firm including: changes in key personnel, principals and other individuals providing advice to the Retirement Plan Committees.
7. Provide a written fiscal year analysis of the performance of the Police and Fire Plan and the Employees Plan.

## **C. Responsibilities of the Investment Managers**

1. Manage the portion of the assets under their control in accordance with;
  - a. the objectives, guidelines and performance standards as stated herein,
  - b. the prudent expert standards required by law, and
  - c. their specific contracts with the County.

2. Exercise full investment discretion within the objectives and guidelines included herein as to buy, hold and sell decisions for all assets under management.
3. Promptly inform the Retirement Plan Committees regarding significant matters pertaining to the investment of the assets under their control. This includes, at a minimum, the following:
  - a. A quarterly, written analysis of portfolio performance.
  - b. Oral and written communication of substantive changes in investment strategy and portfolio structure.
  - c. Oral and written communication of changes in ownership, organizational structure, financial condition of the Investment Manager's firm and changes in professional staffing, which relate to the investment of the assets under their control.
  - d. A statement of brokerage policy and average cents per share commission experience.
  - e. A statement of proxy voting policy and voting records, if requested.
4. Provide input as appropriate regarding progress toward the specific objectives developed herein, as well as suggestions on possible modifications to the investment guidelines.
5. Vote proxies in accordance with the objectives and guidelines included herein and report their proxy voting to the Retirement Plan Committees. The Retirement Plan Committees reserve the right to direct the voting of proxies upon adequate notice.

**D. Custodian** – The custodian has been delegated the following responsibilities:

1. Perform, participate in and exercise such rights, privileges, duties and responsibilities possessed by any other owner or holder of bonds or other

evidence of indebtedness and common and preferred stock, except for the voting of proxies, which shall be delegated to investment managers;

2. Safekeep all assets including securities, cash and cash equivalents;
3. Receive instructions from Investment Managers to purchase and sell various securities and ensure that transactions are settled according to established settlement procedures;
4. Provide monthly transaction accounting on security holdings with reports provided to the Retirement Plan Committees in a timely manner;
5. Process all benefit distributions to retirees and beneficiaries in a timely manner;
6. Provide annual tax reporting to the Internal Revenue Service and to retirees and beneficiaries in a timely manner; and
7. Forward proxy materials to Investment Managers promptly after receiving them.

**E. Legal Counsel** - The Retirement Plan Committees' designated legal counsel will advise and represent the Retirement Plan Committees in all matters requiring legal insight and advice.

**F. Plan Actuary** - The Retirement Plan Committees' designated plan actuary shall have the following responsibilities:

1. Prepare, on a frequency determined by the Retirement Plan Committees, a comprehensive evaluation of the funded status and required contribution levels for the Police and Fire Plan and the Employees Plan and attest to the appropriateness of the assumptions and funding policy for both the Police and Fire Plan and the Employees Plan; and
2. Conduct special experience and actuarial studies as required by the Retirement Plan Committees.



### **III. INVESTMENT OBJECTIVES**

- A. The Plans' objective is to provide benefits as anticipated through a carefully planned and executed investment program that achieves a reasonable long term total return consistent with the level of risk assumed.
- B. The Plans seek to:
  - 1. Achieve an annualized total rate of return of at least 7.5% net of investment expenses, over a full market cycle.
  - 2. Achieve adequate investment growth such that the purchasing power of the principal amount of the Plans' assets is maintained over time.
  - 3. Diversify assets sufficiently and in accordance with modern portfolio theory.
- C. The Plans shall maintain sufficient liquidity levels in order to meet near term obligations and fund current operations.

### **IV. ASSET ALLOCATION POLICY**

In an attempt to construct a portfolio of several different asset classes that will ultimately lower total expected risk (as measured by volatility of returns) and increase total expected return, the Plans' assets will be diversified in accordance with Modern Portfolio Theory. The Retirement Plan Committees have received and reviewed long-term performance expectations while focusing on the risk and rewards of capital market behavior. Based on the Plans' time horizon, risk tolerance, liquidity needs, and investment objectives, an efficient or optimal portfolio was identified.

The asset allocation policy identifies the target allocation to the classes of assets the Plans can utilize and the ranges around the targets that the asset classes can fluctuate. This policy is expected to provide diversification of assets in an effort to maximize investment return to the Plans consistent with prudent market and economic risk. All of the Plans' assets are to remain invested at all times in the asset classes as designated by this policy. The following strategic asset allocation policy was adopted by the Plans on ~~February~~ April ~~24~~ 25, 20119:

<u>Asset Class</u>	<u>Minimum Allocation</u>	<u>Target</u>	<u>Maximum Allocation</u>
<b><u>Equities</u></b>	<b><u>30%</u></b>	<b><u>40%</u></b>	<b><u>50%</u></b>
<u>U.S. Equities</u>	<u>18%</u>	<u>23%</u>	<u>28%</u>
<u>International Equities</u>	<u>7%</u>	<u>12%</u>	<u>17%</u>
<u>Emerging Market Equities</u>	<u>1%</u>	<u>5%</u>	<u>10%</u>
<b><u>Alternative Investments</u></b>	<b><u>18%</u></b>	<b><u>23%</u></b>	<b><u>28%</u></b>
<u>Private Equity</u>	<u>5%</u>	<u>10%</u>	<u>15%</u>
<u>Private Debt</u>	<u>0%</u>	<u>5%</u>	<u>10%</u>
<u>Hedge Funds</u>	<u>3%</u>	<u>8%</u>	<u>13%</u>
<b><u>Fixed Income</u></b>	<b><u>20%</u></b>	<b><u>30%</u></b>	<b><u>40%</u></b>
<u>Core Fixed Income</u>	<u>10%</u>	<u>20%</u>	<u>30%</u>
<u>TIPS</u>	<u>0%</u>	<u>2%</u>	<u>7%</u>
<u>Absolute Return Fixed Income</u>	<u>0%</u>	<u>4%</u>	<u>9%</u>
<u>Emerging Market Debt</u>	<u>0%</u>	<u>4%</u>	<u>10%</u>
<b><u>Real Assets</u></b>	<b><u>2%</u></b>	<b><u>7%</u></b>	<b><u>12%</u></b>
<u>Core/Non-Core Real Estate</u>	<u>2%</u>	<u>5%</u>	<u>7%</u>
<u>Other Real Assets</u>	<u>0%</u>	<u>2%</u>	<u>4%</u>
<u>Cash Equivalents</u>	<u>0%</u>	<u>0%</u>	<u>5%</u>

  

<u>Asset Class</u>	<u>Minimum Allocation</u>	<u>Target</u>	<u>Maximum Allocation</u>
<b><u>Equities</u></b>	<b><u>30.0%</u></b>	<b><u>40.0%</u></b>	<b><u>50.0%</u></b>
— <u>U.S. Equities</u>	<u>15.0%</u>	<u>20.0%</u>	<u>25.0%</u>
— <u>International Equities</u>	<u>8.0%</u>	<u>13.0%</u>	<u>18.0%</u>
— <u>Emerging Market Equities</u>	<u>2.0%</u>	<u>7.0%</u>	<u>12.0%</u>
<b><u>Alternative Investments</u></b>	<b><u>15%</u></b>	<b><u>22.5%</u></b>	<b><u>27.5%</u></b>

— Private Equity	5%	10%	15%
— Hedge Funds	10%	12.5%	15%
<b>Fixed Income</b>	<b>20%</b>	<b>30%</b>	<b>40%</b>
— Core Plus U.S. Fixed Income	15%	25%	35%
— Emerging Market Debt	0%	5%	10%
<b>Real Assets</b>	<b>2.5%</b>	<b>7.5%</b>	<b>12.5%</b>
— Core Real Estate	2.5%	5%	7.5%
— Other Real Assets	0%	2.5%	5.0%
— Cash Equivalents	0%	0%	5%

It is understood that the ranges noted above are targets and that deviations may occur from time to time as a result of capital market fluctuations. However, in the absence of a compelling reason, the Retirement Plan Committees with the advice of the Investment Consultant will rebalance the assets should the allocation to the classes fall outside the stated tactical ranges. Unless the Retirement Plan Committee with the advice of the Investment Consultant determines that it is unnecessary, rebalancing back to target allocations shall occur at least annually.

A limited review of the asset allocation policy shall be conducted annually to determine whether the level of investment in illiquid assets presents risk to the Fund. A formal review of the asset allocation policy shall be conducted at least every five years to ensure that the current asset mix is consistent with the long-term objectives of the Plans.

If multiple Investment Managers with different investment styles (i.e. growth and value) are used by the Plans within the sub-asset classes noted above then equal target allocations will be made so that there is no distinct style bias within the Plans' overall portfolio.

## **V. PROFESSIONAL INVESTMENT MANAGERS AND ADVISORS**

The Retirement Plan Committees shall employ professional Investment Managers to manage the assets of the Plans. The Retirement Plan Committees may establish separate account structures with Investment Managers or invest in mutual funds, limited partnerships, group trusts, funds of funds and other commingled vehicles ("Pooled Investment Funds"). The Retirement Plan Committees and their staff have no role and shall not exert any influence in the actual investment process performed by the Investment Managers. Unless the prospectus or offering memorandum of a Pooled Investment Fund provides otherwise, Investment Managers must be investment advisors registered under the Investment Advisors Act of 1940, banks or insurance companies. In addition, each Investment Manager must be registered in the State of Maryland and licensed to conduct business in the State if legally required to do so.

New Investment Managers may be added and participation in Pooled Investment Funds may be approved only after a formal search and selection process is conducted by the Retirement Plan Committees. This process shall consider, among other things, the qualitative and quantitative characteristics of potential Investment Managers and Pooled Investment Funds from among a universe of available Investment Managers and Pooled Investment Funds.

It is understood that investing through a Pooled Investment Fund means that the investments will be governed by the Pooled Investment Fund's own set of guidelines and restrictions. While it is the intent to invest in Pooled Investment Funds that meet the general intent of these guidelines, there may, in fact, be instances in which the Pooled Investment Fund's guidelines differ in a number of ways. In such cases, the Pooled Investment Fund's guidelines and restrictions will supersede those outlined herein. For that reason, investments in Pooled Investment Funds may be made by an Investment Manager only with the prior approval of the Retirement Plan Committees. The Investment Manager shall provide the Retirement Plan Committees with a copy of the prospectus or offering memorandum of any Pooled Investment Fund that it proposes to use, and shall specifically identify any guidelines and restrictions that differ from those outlined herein. To the extent that Pooled Investment Funds are implemented by an Investment Manager, the fees imposed should be at no higher cost than that incurred if the securities were separately managed by the Investment Manager.

Investment Managers shall have full discretion over the investment decisions they make pursuant to a separate set of investment guidelines and subject to the following policies:

- A. Investment decisions should be made in accordance with the documents and instruments governing the Plans and with the care, skill, prudence and

diligence under the circumstances then prevailing that a prudent individual acting in a like capacity and familiar with such matters would use in the conduct of a like character and with like aims.

- B. Investments should be diversified to minimize the risk of large losses.
- C. Although investments should be made with long-term objectives, assets may be disposed of, without regard to the length of time they have been held, whenever investment considerations make such action desirable. Investment results will be judged on the basis of unrealized and realized gains and losses so there is no accounting incentive to hold or sell a security.
- D. Investment Managers are permitted to invest the Plans' assets in futures, options, swaps and derivatives, but only if the investment guidelines that are incorporated into the Manager's agreement with the County (or the prospectus or offering memorandum in the case of a Pooled Investment Fund) specifically permits such investments.
- E. Periodic asset valuation reports (at least quarterly) shall be furnished to the Plans' Investment Consultant by each of the Plans' Investment Managers.
- F. The County employs a commission recapture program (the "Program"), in which several Investment Managers participate. Each Investment Manager that is separately notified of its participation in the Program shall comply with the following objectives and guidelines:
  - 1. Objectives
    - For those trades that are executed on behalf of the Plans, the Investment Manager shall attempt to direct 25% to 30% of the commission generated to the brokerage firms providing services within the Program, subject to the guidelines set forth below.
    - Any commission that is generated through the Program shall solely benefit the participants and beneficiaries of the Plans.
  - 2. Guidelines

- Commission rates shall be negotiable and the Investment Manager must seek best price and execution at all times. The Investment Manager is not required to use a participating brokerage firm if the participating brokerage firm fails to provide best execution.
- The Investment Manager shall pay commissions that are reasonable in relation to the services received. The selection of a broker shall take into account relevant factors such as price, the broker's facilities, reliability, financial responsibility, and research services, and the ability of the broker to effect the transactions, particularly with regard to such aspects as timing, order size and execution of orders.
- In order to satisfy the direction request of the Program, the Investment Manager is encouraged to use "step-out" trades and in no event shall the Investment Manager "sequence" the Plans' trades.
- The County will evaluate the Program and the participating brokerage firms' abilities on an annual basis. This evaluation shall include communication with the Investment Manager regarding the brokerage firms' potential for achieving best execution, an analysis of the brokerage firms' trading skills, the ability of the Investment Manager to satisfy the Program's objectives, the Investment Manager's trading style and liquidity needs.
- The Investment Manager is responsible for ongoing monitoring of the participating brokerage firms' abilities and shall notify the Investment Consultant immediately should any of the brokerage firms fail to meet the Investment Manager's standards for execution quality.

G. This Section G. applies to each Investment Manager unless the prospectus or offering memorandum of a Pooled Investment Fund provides otherwise. The County has delegated its right to vote the proxy solicitations received

on the Plans' behalf to the Investment Managers it employs. The Retirement Plan Committees reserve the right to direct the voting of proxies upon adequate notice. In all proxy situations, the Investment Manager has a duty to make independent proxy decisions and to decide with objectivity what is in the best interests of the Plans' participants and beneficiaries. All proxies must be voted.

Proxy voting rights are the Plans' assets and must be exercised in accordance with the fiduciary duties of loyalty and prudence. The duty of loyalty requires that the proxy voting fiduciary exercise its proxy voting authority solely in the interests of participants and beneficiaries of the Plans and for the exclusive purpose of providing the Plans' benefits to participants and beneficiaries of the Plans. The voting fiduciary may not subordinate the interests of participants and beneficiaries of the Plans to unrelated objectives.

In order to meet this fiduciary duty it is expected that each Investment Manager employed by the County will establish policies and procedures to ensure that issues are noted, analyzed and considered before voting. Investment Managers shall consider, but are not limited to, the following guidelines when adopting proxy voting policies and procedures:

1. Develop initial, specific guidelines and institute a regular review process, including review of new or controversial proxy issues.
2. Provide a review mechanism for any unusual proposals, such as an opposition slate of directors, corporate restructuring related to hostile takeovers, or any proposals that appear not to be in the best interests of shareholders.



3. Provide regular reports to the Retirement Plan Committees that effectively exhibit how proxies are voted and why.
4. Maintain adequate records of all proxies that are received and voted.
5. Avoid or minimize conflicts of interest.
6. Develop a system to monitor any delegation of proxy voting responsibility to others.
7. Monitor for the timely receipt of proxies from the Plans' custodian or its agent.
8. Educate and train staff.
9. Provide a copy of the proxy voting policies and procedures to the County when the account is funded and whenever changes or amendments are made thereafter.

## **VI. PERFORMANCE OBJECTIVES**

Investment performance shall be measured on two levels: against objectives for the total Plans and against objectives for the individual Investment Managers. Investment performance shall be measured no less frequently than quarterly and performance relative to objectives shall be judged over a period of three to five years.

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The Plans' total performance will be measured against a composite benchmark. The Investment Consultant will set the composite benchmark based on unmanaged benchmark indexes provided below weighted in proportion to the Plans' target asset allocation (provided in Part IV above) in each of the equivalent asset classes. When the target allocation for any asset class reflects a future goal, a transitional composite benchmark will be used. The performance objective of the total Plans is to provide an annualized total rate of return of at least 7.5% net

of investment expenses, and match or outperform the composite benchmark over a full market cycle, net of investment expenses.

<u>Asset Class</u>	<u>Index</u>
<u>Large Cap U.S. Equities</u>	<u>Russell 1000 Index</u>
<u>Small/Mid Cap US Equities</u>	<u>Russell 2500 Index</u>
<u>International Equities</u>	<u>MSCI EAFE Index</u>
<u>Emerging Markets Equity</u>	<u>MSCI EM Index</u>
<u>Core Fixed Income</u>	<u>Bloomberg Barclays U.S. Aggregate</u>
<u>TIPS</u>	<u>Bloomberg Barclays U.S. TIPS</u>
<u>Absolute Return Fixed Income</u>	<u>3-Month Libor Total Return</u>
<u>Emerging Market Debt</u>	<u>JPM GBI EM Global Diversified</u>
<u>Private Equity</u>	<u>Cambridge Associates US All PE Index</u>
<u>Private Debt</u>	<u>S&amp;P/LSTA Leveraged Loan Index</u>
<u>Hedge Funds</u>	<u>HFRI Fund of Funds Conservative Index</u>
<u>Real Estate/ Real Assets</u>	<u>NCREIF Index</u>

<u>Asset Class</u>	<u>Index</u>
<u>Large Cap U.S. Equities</u>	<del>S&amp;P 500 Index</del> <u>Russell 1000 Index</u>
<u>Non Large U.S. Equities</u>	<del>Russell 2500 Index</del>
<u>International Equities</u>	<del>MSCI EAFE Index</del>
<u>Emerging Markets Equity</u>	<del>MSCI EM Index</del>
<u>Core Plus U.S. Fixed Income</u>	<del>Lehman Aggregate Bond Index</del> <u>Bloomberg Barclays U.S. Aggregate</u>
<u>Emerging Market Debt</u>	<del>JPM GBI EM Global Diversified</del>
<u>Real Estate/ Real Assets</u>	<del>NCREIF Index</del>
<u>Private Equity</u>	<del>S&amp;P 500 Index plus 400 BPs</del>
<u>Hedge Funds</u>	<del>HFRI Fund of Funds Conservative Index</del>

The performance objectives of individual Investment Managers shall be documented within separate investment guidelines. The performance of Pooled Investment Funds shall be measured against the performance the unmanaged market indexes identified above or any appropriate style specific index. In general, Investment Managers and Pooled Investment Funds are expected to outperform an appropriate benchmark over 3 to ~~5-year~~5-year periods.

## **VII. REVIEW PROCEDURES**

The Retirement Plan Committees and the Investment Consultant will review the performance of the Investment Managers on a periodic basis, to determine whether or not the Investment Managers selected have performed in accordance with this Investment Policy Statement and the applicable investment guidelines. Failure by an Investment Manager to comply with this Investment Policy Statement and the applicable investment guidelines may be cause for termination.

- A. Each Investment Manager will be expected to meet with the Retirement Plan Committees and/or their representative(s) as requested (generally, once every two years) and to provide:
1. A verbal and written review of their investment performance and portfolio structure.
  2. A synopsis of their key investment decisions, their underlying rationale and expected future implications.
  3. An organizational update.

B. The Retirement Plan Committees and the Investment Consultant will also review each Investment Manager and Pooled Investment Fund and the overall investment program on a periodic basis, but no less than annually. Key issues will include:

1. Current trends and developments in the capital markets and manager community.
2. The ongoing appropriateness of the policies included herein.
3. The continuing diversification of the investment funds as managed by the current Investment Managers. It is the intent of the Retirement Plan Committees to review this document on an annual basis as future circumstances could require modifications.

This policy was approved by the Retirement Plan Committees of the Howard County Retirement Plan and Howard County Police and Fire Employees' Retirement Plan on ~~March 21, 2002 and last amended on February 26, 2015.~~ OctoberApril 25, 20189.

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Wanda Hutchinson

Chairperson, Retirement Plan Committees

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